Market Update

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February 2011

- Successful bond issues in Europe ease concerns
- China growth continues as inflation slows
- Aussie dollar trades to parity on back of commodities

What's inside?

The pulse

↑ **China December GDP**
0.6% from the September quarter at 9.8% annualised

↓ **AUD/USD**
2 cents to 99.7 US cents

January market performance

Equity Markets – Price Indices	Index	At Close 31/01/2011	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4849.95	0.06%	5.51%
Japan	Nikkei	10237.92	0.09%	0.39%
Hong Kong	Hang Seng	23447.34	1.79%	16.53%
UK	FTSE 100	5862.94	-0.63%	13.00%
Germany	DAX	7077.48	2.36%	26.19%
US	Dow Jones	11891.93	2.72%	18.12%
EMU [1]	Euro 100	2378.56	2.26%	10.61%
World [2]	MSCI – Ex Aus (Gross)	916.37	1.93%	14.51%
Property – Price Index	**Index**	**At Close 31/01/2011**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REIT	848.04	2.34%	-1.52%
Interest Rates		**At Close 31/01/2011**	**At Close 31/12/2010**	**At Close 31/01/2010**
Aust 90 day Bank Bills		4.92%	4.96%	4.25%
Australian 10 year Bonds		5.51%	5.51%	5.44%
US 90 day T Bill		0.15%	0.12%	0.07%
US 10 year Bonds		3.38%	3.29%	3.59%
Currency [3]		**At Close 31/01/2011**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	1.00	-2.55%	12.79%
British pound	A$/STG	0.62	-5.02%	12.61%
Euro	A$/euro	0.73	-4.74%	14.21%
Japanese yen	A$/yen	81.81	-1.49%	2.52%
Trade–weighted Index		73.70	-2.77%	6.50%

1 Top 100 European stocks trading on the FTSE
2 Price Index – Source: www.msci.com
3 All foreign exchange rates rounded to two decimal places
Source: Iress Market Technology
Past performance is not a reliable indicator of future performance.

Global economies

Unfortunately, the familiar concerns which hindered global investor sentiment in 2010 carried over into 2011. This included whether government bond issues planned by Spain, Portugal and Italy would be successful and concerns over political deadlock in Belgium. To add to these worries, late in the month, Egypt's political outlook unravelled.

Thankfully sentiment was smoothed through the month as the bond issues were successful. Japan also threw its hat in the ring, announcing it would be participating actively in the purchase of 20% of the first issue of bonds from the European stability fund established to support financing for the troubled peripheral European economies.

Another potential detractor to markets emerged as a result of the emerging political instability in North Africa with a regime change in Tunisia and the popular uprising in Egypt. This caused some volatility for a time in the oil market and in global sharemarkets, but wasn't enough to override what has been a relatively good start to the year as far as economic reports are concerned.

The International Monetary Fund (IMF) upgraded its October 2010 World Economic Outlook forecast for the global economy from 4.25% to 4.5%, an upward revision of 0.25%.

The IMF noted "the most urgent requirements for robust recovery are comprehensive and rapid actions to overcome sovereign and financial troubles in the euro area and policies to redress fiscal imbalances and to repair and reform financial systems in advanced economies more generally".

In its first meeting of the year, the US Federal Reserve (Fed) kept the Fed funds rate steady at 0-0.25%. As widely expected the Fed retained their view that rates are set to remain "exceptionally low for an extended period" with the rate of recovery so far unable to reduce joblessness.

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In better news, the Fed did note that household spending had picked up late last year, a trend subsequently also evident in the US GDP for the December quarter of 2010 which showed not only that growth picked up from 2.6% to 3.2% but this was led by acceleration in consumer spending. US fixed investment also rose.

Meanwhile, the UK economy was tripped up at the end of 2010 by the severe cold weather. The impact proved substantial with the first estimate of UK GDP revealing a surprising decline of 0.5%, well short of the expected 0.5% rise and taking year on year growth back to 1.7% from 2.7%.

Taking the poor weather aside, the underlying economy looks to have put in a flat to slightly weaker performance.

On the flipside, it was a different story in the Eurozone where the German economy in particular has been much stronger than expected.

Chinese GDP accelerated to a 9.8% year on year pace in the December quarter, up from 9.6% in the September quarter. To put this into perspective, in annual average terms, China grew 10.3% in 2010, the fastest pace in three years.

Surprisingly, according to the GDP report released along with the December monthly data, inflation is slowing, to 4.6% from 5.1% year on year in November. But activity data in December remained strong, with industrial production up 13.5%, retail sales up 19.1% and Government investments in fixed asset investment, up 24.5% year on year.

Big movers this month

↑ Consumer Staples, Financials and Property; all up 2.4%

↓ Info Tech; down 3.9%

Equity markets

Equity markets didn't get off to the best start in 2011, with European sovereign debt fears dominating the first two weeks of the year as markets speculated on the possible default of Portugal, Spain and, more recently, Belgium.

Meanwhile the weaker than expected 103,000 increase in US non-farm payrolls for December (released in the first week of January) added further pressure on markets that had been expecting an upside surprise after the 297,000 increase in the ADP employment data for December.

Despite these headwinds, global equity markets made gains during January and in the early days of February.

Likewise, commodity prices had a strong month with good gains in coal and iron ore (supported by supply concerns out of Australia in the wake of flooding especially in Queensland). Agricultural prices were also stronger, as well as base metals.

A notable exception where the price lagged was the price of gold which fell by a sizable 6.2% over January.

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	8.71%	-1.24%	3.68%	10.08%
	S&P/ASX 50 Acc.	7.40%	-0.46%	3.91%	10.10%
	S&P/ASX Small Ordinaries Acc.	19.46%	-1.62%	4.30%	9.91%

Locally, the ASX 300 started 2011 soft, in line with global markets, but also weighed down by the Queensland floods and the anticipated large hit to the economic outlook.

The index hit a low of 4700 on January 10, but then recovered to be as high as 4853 on January 19 (its highest level since April 2010) ending the month at 4766.

While the economic outlook continues to be important; it's more likely that movements in global risk appetite will continue to be the key driver for the major equity indices.

Sector	1 Mth	3 Mths	1 Yr
Energy	-1.3%	4.8%	11.9%
Materials	-3.1%	4.4%	21.3%
Industrials	0.0%	0.9%	2.1%
Consumer Discretionary	0.7%	-2.6%	0.2%
Consumer Staples	2.4%	-2.2%	15.1%
Health Care	0.6%	9.7%	11.9%
Financials	2.4%	3.3%	2.2%
Info Tech	-3.9%	-1.0%	-7.4%
Telcos	1.0%	5.4%	-6.8%
Utilities	-1.8%	-2.8%	8.9%
Property	2.4%	1.5%	4.8%

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Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	6.24%	-5.29%	-3.69%	0.98%
	MSCI World Index Hedged ($A)	16.91%	-3.13%	-0.52%	3.90%
	MSCI World Small Cap ($A)	16.26%	1.20%	-2.34%	4.11%
Emerging	MSCI Emerging Mkts Free	9.20%	-0.49%	3.91%	11.94%
	MSCI AC Far East Free (ex Japan)	14.07%	1.36%	5.00%	9.05%

Global equity markets bottomed around 10 January, but then trended higher in the latter half of the month.

This was helped by a series of successful European bond auctions by troubled countries, easing European debt concerns. Also, supporting this improvement was some solid economic data.

The S&P 500 rose 2.3% in the month, while the Dow Jones was up 2.7%. In Europe, markets were up 2.3%, although the UK went against the trend with a 0.6% decline.

In China, the equity market continued to trend lower as investors continued to expect further monetary tightening. This was subsequent to the interest rate increase and the increases in the bank reserve ratio over the last couple of months.

Property

	Index/Benchmark	1Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	4.79%	-16.56%	-9.15%	-1.37%
Global	UBS Global Investors ($A)	16.43%	-6.36%	-5.04%	N/A

Listed property, both domestic and international, had an exceptional month in January. The S&P/ASX300 AREIT Accumulation Index was up 2.4%, while the UBS Global Investors Index was one of the best performing asset classes with a gain of 4.8%.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	5.59%	7.33%	5.92%	6.11%
	Australian 90 Day Bank Bill	4.74%	4.96%	5.53%	5.54%
Global	BarCap Global Aggregate Index	-6.12%	1.05%	0.72%	2.14%
	BarCap Global Ag. Index Hedged	7.91%	8.23%	7.51%	7.18%

Australian fixed interest outperformed Australian equities over January with the UBS Composite Bond Index gaining 0.9%. Global fixed interest however was a stand out performer with the Barclays Capital (BarCap) Global Aggregate Index delivering a gain of 3%.
The equivalent hedged index however finished relatively flat with a gain of only 0.1%, following the fall of the AUD during January.

Australian dollar (AUD)

Commodity driven currencies generally continued to get support in the first part of the year. While pulling back from its high of 1.02 US dollars at the end of last year to 99.7 US cents at the end of January, the AUD/USD has since traded up through parity again in early February.

This had been supported by strong commodity prices despite wavering expectations for when the RBA might next increase the cash rate.